



Royal Fidelity Economic Outlook Conference **Evolving Risks: The Way Forward for the Cayman Islands** **Remarks by Premier Wayne Panton** **Thursday, 16 March 2023**

Good morning ladies and gentlemen,

Welcome to the 2023 Royal Fidelity Cayman Economic Outlook Conference. This year marks the 20th year of the conference. On behalf of all members of my Government, we wish to extend our sincere congratulations to the organisers, Royal Fidelity and in particular, Mr Michael Anderson and Mr Brett Hill for this historic milestone. Well done!

Royal Fidelity has promised to give us *“a world of ideas packed into one inspiring day”*. That is a big promise, yet, after 20 years we know that is exactly what this conference delivers each year. We leave each session a little more knowledgeable, a little more curious, more energised and definitely more inspired. As I said last year, this annual event is one of the BEST conferences on our local and regional calendars.

A warm Caymanian welcome to our international guests who have traveled to be with us today. For those of you who are first time visitors, we hope you will get out and enjoy our islands' natural beauty, excellent culinary offerings and the friendliness of our people.

For our returning visitors, welcome back. We look forward to reconnecting with you and our hope is that this visit is even better than your last one.

It gives me great pleasure to be here today to provide you with a Cayman Islands update from the Government's perspective. Today's turnout today sends a clear message that,



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after COVID-19, our economy is back. The Cayman Islands is open for business and our economy is growing again.

We see it here in the size of the audience today. And, we can also see it in the numbers. Our economic growth as measured by GDP was 3.7% in 2022 and 4.0% in 2021, and in the difficult year that was 2020 the economy contracted by 5.1%.

But, it's not just GDP recovery. Its jobs. Our economy has created more than 8,900 jobs relative to the pre-pandemic period of 2019. When compared to the low of 2020, the economy has added over 14,700 jobs. The unemployment rate for Caymanians is at a record low of 3.6%. Roughly half have been without a job for more than a year, and we are actively exploring avenues to provide training and retraining opportunities to get them back into meaningful employment. Our real GDP per capita in 2022 was estimated at US\$70,790, higher than the United States and most other advanced economies.

While our success is clear... It is important to remember, as former UK Prime Minister Tony Blair once said, *"Real progress cannot be measured by money alone. We must ensure that economic growth contributes to our quality of life, rather than degrading it."*

We can measure success with many metrics, and one of our objectives in this Government was to use a balanced approach to measure success, to ensure our success is in fact making the lives of our citizens better and to find ways to measure that quality of life that Tony Blair is talking about.

With that goal in mind, we set out to start measuring our social progress. Another key statistic that speaks to our success is the United Nations' Human Development Index. The Human Development Index is a summary measure of achievements in three key dimensions of human development: a long and healthy life (the Health Index), access to knowledge (the Education Index) and a decent standard of living (the Income Index).



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The Cayman Islands is not a sovereign country and hence is not included in the official rankings. However, we used the UN methodology to determine our HDI.

For the Cayman Islands, the 2021 Human Development Index value was 0.877, which falls within the range of 0.80 and 1.0 in the HDI Report 2021/2022. Countries in this group are classified as having a Very High Human Development Index. Comparatively, the only other country from the Caribbean Region in this category was Trinidad and Tobago, with an index value of 0.81. The HDI for the Cayman Islands was consistently between 0.86 and 0.88.

As we look toward the broader economy, there are a few key challenges we face as we continue to grow our economy. The sustainability and liveability of our three islands for this and future generations encompass a number of those challenges. We have a few 'wicked' problems, and some of the most urgent are cost of living and traffic. Our PACT government is committed to tackling these problems head on, and while there are no silver bullets and no magic wands that instantly or easily solve these complex problems, we must do what we can to provide cost of living relief in the short term and take steps to contain, and ideally, reduce costs in the medium term to long term. Similarly, when it comes to traffic we must make it easier to get around our country without being stuck for hours in gridlocked traffic.

When it comes to cost of living, in our first 15 months, we implemented an unprecedented number of initiatives to protect income and lower costs for our citizens, initiatives which I have outlined multiple times in the past year, some of the highlights include:

- providing free lunches to all children in public primary and secondary schools
- providing temporary assistance with electricity costs during the second half of 2022 as fuel costs were unusually high,
- lowering the duty on a whole set of goods necessary for women, children and families
- providing income assistance with income stipends and health insurance premiums while the economy was transitioning to full recovery and



- removed duty on energy efficient products

As I said, these are simply a few of the more than two dozen initiatives we implemented to assist our people.

The global supply chain crisis, the war in Ukraine and the imprudent monetary policies in some of our larger friends and neighbours all contributed to a global inflationary crisis that has resulted in dramatically higher prices here in the Cayman Islands... all largely due to factors which were outside our local control or influence. But, just because it is hard to provide cost of living relief, does not mean that it is not the right thing to try do. We are a people driven Government and ensuring our people can continue to afford to live and raise their families with dignity is something we are steadfastly committed to protecting.

The government is considering a raft of new measures to address this cost of living crisis. We are currently evaluating policy options such as

- raising the minimum wage,
- considering cost of living adjustments to salaries,
- incentivising adults already in the workforce to get technical and vocational training to upskill or retrain themselves – investments which will help them to qualify for higher paying jobs with good benefits, and
- we are diligently working to find sustainable and responsible ways to lower the cost of electricity, food, housing and healthcare.

Reducing energy costs for businesses and households is critical to the long-term sustainability of our islands. Increasing support for renewable energy is not only good for the environment, but it will reduce our dependence on fossil fuels, provide us with energy security and allow us to reduce energy costs across the society over the long term.

The other critical intervention is the traffic and transportation initiative. Here we need short term interventions and policy changes for the medium and long term. One long term fix is to take a close look at development planning and our zoning laws. We need to create more



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mixed-use communities that are more walkable and denser than the way we currently develop.

Denser, more walkable communities would reduce the need for people to get in cars for simple errands, or for all residents to get in a car to commute to work or school. Denser, mixed-use communities enable public transportation to thrive, cycling to thrive and they also promote walking which promotes health and wellness. Well designed, mixed-use communities are good for community health, good for the environment and good for our economies. Density does not automatically mean sky-scrapers; greater density can be achieved through allowing auxiliary dwelling units on a traditional lot, allowing smaller lot sizes and/or adding two to three storeys to residential dwellings.

We must also look to short term interventions and interim solutions to alleviate the current pain being felt by thousands of people living in the Eastern Districts. We know that even if the construction of the EW Arterial commenced today, that solution will take at least a year to offer relief to people coming from the Eastern districts. We are determined to get that important element of road infrastructure in place as quickly as is legally possible – yet, we know that we need to offer interim solutions now to improve the quality of life for thousands of residents who are suffering each day. We need to assist them now, not a year from now. Some of these will include incentivising car-pooling, offering subsidised bus service from the outer districts on weekdays and discouraging the typical pattern of a single occupant in hundreds of cars making their way into George Town. We will also take a tougher stand on restricting the number and types of cars that can be imported. In the medium term, we need to create and resource an effective public transport system that reduces the number of cars on the road. Making public transportation more regular, more comfortable and more available will improve its usage.

Due to our small size and rapid growth, we will always have challenges with mobility and affordability. It is expensive to transport goods and services to our islands. And, because we only have so much land and we cannot fill it up with American style highways. But,



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through our policies and our focus on improving the lives of our people, we can make sure and steady progress improving our transportation systems, making our country more affordable and improving the quality of life for our citizens.

Allow me to speak for a few moments on the matter of work permits. This is a difficult conversation – it always has been and it always will be. The reason it is so difficult is because a balance must be struck. On the one hand, we know that growing our population is one way of growing our economy. It creates jobs, it creates demand and customers for local businesses and revenue for Government coffers. Fundamentally, it creates economic opportunity for Caymanians. But, on the other hand, it also has the potential to price Caymanians out of our own country and make it more difficult to live here. And, it has had the effect of fundamentally changing our country culturally. I have heard many, many, many stories of Caymanians denied opportunities because the employer would rather bring in a guest worker. That is unfair to our qualified workforce.

Now, how do we balance this? Go too far in one direction and we stifle economic activity. Go too far in the other direction and we lose our country. Our balance is about preserving the rights of Caymanians in our own country whilst simultaneously ensuring that businesses have the labour they need to grow.

For that reason, we need to be diligent and exercise due care in the processing of work permits. We also need to pursue ways to achieve growth through increased productivity and through economic activities which rely less on large amounts of human capital. You have heard us say that we are looking to innovate, to grow our economy through tech and healthcare and to be deliberate about diversification. We will be sharing more about those efforts in the coming months.

Turning now to the Government's finances. I am pleased to report that the fiscal performance of this government is strong. We will be reporting a substantial government surplus thanks to our prudent management in the post COVID world.



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Specifically, we will deliver a CI\$40million surplus this year which amounts to nearly 5% of the annual budget and more than double the surplus we projected. This is an admirable performance given our increased expenditures in 2022, increased expenditures used to fund a number of those initiatives to help our people that I mentioned earlier. It is important to underscore this point – this surplus was not realised through austerity measures that deprived our people of needed assistance.

Given the uncertainty of the current geopolitical environment and any unforeseen consequences for the Cayman Islands, our government is seeking to maintain a surplus this year; we will do this by being responsible and conservative. Moreover, we are holding in reserve the \$330m loan that we obtained at a favorable rate. This gives us a healthy cash balance but it doesn't count as part of the surplus. As we all know, we may not be able to borrow at favourable rates again for many years to come.

Yet ladies and gentlemen, although I am here today speaking at an Economic Outlook conference, as a Government our mandate is not just about dollars and cents. Our mandate includes a social agenda – building a fairer, safer, more equitable and more sustainable society.

To that end, I am pleased that we are advancing the Sexual Harassment white paper that protects both genders in the workplace, and in our society. We have all heard the stories of mistreatment and harassment, and the statistics show that most often it is women who are being mistreated. Women who are too afraid to come forward. They are afraid of victimisation and losing their jobs. That is not right. We must build a more empowering and equitable society where women feel safe to come forward. If you ask almost every woman in our society, they can tell you a story of misogyny, some of mistreatment. And, too many stories of emotional and physical abuse. That's not right and that is why I'm proud to champion this important legislation.



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I have heard too many troubling stories, and I am here to tell all of the Cayman Islands this – it does not matter how wealthy you are or how powerful you are, you do not have the right to harass, belittle or assault women in our society. I invite all of you to look at the White Paper and provide your feedback on the proposed legislation.

I am equally proud to report that in less than 18 months in office, our Government took a definitive stand for good governance. We implemented a Ministerial Code of Conduct, a Cabinet Manual and a Parliamentary Code of Conduct. These were elements of good governance that were identified by various bodies in various reports over the years, and yet were left languishing for more than a decade due to lack of political will. Our Government made history and improved transparency and accountability in the affairs of the elected Government. We are the first administration to publish a summary of the decisions taken by Cabinet at its weekly meetings.

Ladies and gentlemen, we are making meaningful progress to improve the sustainability of our economy, our society and our environment. At the end of April, we will outline our strategic policy statement for the 2024/25 budget and provide a midterm report on our progress thus far.

Now ladies and gentlemen, I want to speak to the theme of today's conference "*Evolving Risks: The Way Forward.*"

Much of what I've talked about today has focused on local matters of concern. This is the environment that we as a government can most impact. But, the reality is, we are but a mouse in a world of lions, tigers, whales and elephants. In the global sense, the evolving risks are innumerable and we must do all we can to protect ourselves while offering a safe and competent jurisdiction where people feel comfortable to invest their resources in this changing, often times unpredictable world.



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Climate change is one of our biggest long-standing threats. We see it most in the rising sea levels but also the intensity of the storms that impact our shores. We are a small, low-lying country which means that we will bear the brunt of climate change. It is therefore now essential that we take decisive action to adapt to the inevitable, adverse impacts of climate change, many of which are already being experienced across our natural and human systems, while also doing all that we can to mitigate our contribution, however small, to the problem.

I'm proud to say that our Government completed a Climate Change Risk Assessment and issued a report Report on the process and the findings. Subsequently, we have nearly completed the update to a Climate Change Policy which delivers robust strategies for responding to the current and anticipated adverse risks of global climate change on the economy, society and natural environment over the next decade and beyond. The report drew together current knowledge of how climate change is already impacting the country or is expected to in the future. From this a 'long list' of risks and opportunities was agreed and scored in terms of proximity, magnitude and confidence at a workshop in May last year.

Fifty risks were evaluated, of which 18 are considered severe. Of those 18 severe climate change risks for the Cayman Islands nine were risks to society, infrastructure and buildings and nine comprised threats to biodiversity and natural habitats. The full report is available online if you are interested in reading it.

There are several solutions needed to address these risks. First, we need to ensure our building standards are respected and enforced so that we minimise damage and loss of life in increasingly fierce storms. Second, while our overall levels of emissions are small, our per capita amount of emissions is incredibly high. We need to set an example for the rest of the world by making our islands as clean and green as possible. This is not only the right thing to do for the environment, but, it is also the right thing to do for our economy and for the quality of life of our people. Harnessing renewable energy opportunities and



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democratising access to renewable energy will protect our economy against future shocks in oil prices, shocks that are out of our control. It may mean some short-term pain for long term benefit, but it is well worth the investment.

We've made progress. We are in the advanced stages of a comprehensive review of our National Energy Policy. We've consulted experts both locally and abroad. We completed public consultation. And, now, we are in the final stages of finalising the draft policy for public consultation and then adoption by Cabinet.

We've also made some progress in biodiversity conservation. Specifically, we've continued protection of our beautiful and unique native species and habitats through the designation of additional protected areas. We have also added another tool to help measure the impact of our conservation efforts. Initially aided by consultants funded by the UK government, we are now internally producing Natural Capital Accounts alongside our traditional national financial accounts in order to better understand the value and range of benefits provided by our natural assets and track their condition and extent of over time.

Finally, the government is also in the process of taking a critical and comprehensive look at the policies and legislation which guide our physical development and planning with the aim of ensuring that future changes and amendments are embedded within a sustainability framework that ensures equal consideration of people, planet and profit in all national decision making.

Beyond climate change, running a well-regulated financial ecosystem is more important than ever. As the last week has taught us, a secure banking sector is critical to the stability and success of local communities, and for the health of the global economy. Shockwaves were sent through the US economy this week with the collapse of Silicon Valley Bank. This is why we have and will continue to strengthen the controls on our financial services sector.



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Another evolving risk is that of income inequality. It is a growing threat globally. The increased concentration of wealth in the hands of the few and the widening gap between the haves and have nots leads to an erosion of social harmony and leads to social instability.

The Cayman Islands are, by any measure, very prosperous. Our real GDP per capita in 2022 was estimated at US\$70,790, higher than the United States and most other advanced economies.

But while salaries in some sectors, especially financial services and related industries, are very high, we know the cost of living is staggeringly high and thousands of people here subsist on low wages. Rising interest rates is making it harder to make ends meet, and with the forecast increase in property insurance rates, the reality is that without careful interventions, the gap in Cayman will widen.

This barbell-like economy poses two related risks. First, a disconnect between rich and poor leading to an “us” and “them” culture, eroding our tradition of openness, inclusiveness, and Cayman kindness. Second, a vicious cycle of dependency, resulting in demands for Government services that in turn demand new taxes and fees that would make us less competitive.

We are addressing both these risks at their root. Reforms underway will ensure government funds are more targeted towards those most in need, especially the elderly and severely disabled. For those who can work, we are developing programs that will provide and incentivise the acquisition of skills that will enable them to become more productive participants in the economy.

In addition, we are introducing policies designed to reduce the cost of living. For example, we plan to offer concessions for the development of new low-income, energy efficient



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housing projects and incentives to enable more young Caymanians to get on the property ladder, own their own homes and evolve a sense of security and stability.

Globally, when you combine rising income inequality with the poly-crisis reality in which we live that is inclusive of climate change, the war in Ukraine, rising tensions between America and China, the aftermath of the worst global pandemic in 100 years, the supply chain crisis and the rise of inflation, and now, the risk of a growing banking crisis, you create the perfect cauldron for instability. And, that instability leads to the rise of authoritarianism and a breakdown in our social institutions.

We in the Cayman Islands must be a safe haven of democracy, fiscal and political stability, social harmony, freedom, and strong institutions. This will help us mitigate the plethora of risks facing most countries for the foreseeable future and increase our resiliency.

As a safe haven for democracy, fiscal and political stability, social harmony, freedom and strong institutions we will almost certainly stand out as a beacon for investment in a challenging world.

If the last few years have taught us anything, it is that we are not immune to geopolitical shocks. The spike in oil prices, the supply chain crisis and imprudent monetary policies outside of our shores have made goods more expensive in the stores right here in the Cayman Islands. The global pandemic caused us to shut our islands to the world. But, the shutdown could not last forever. We faced the difficult task of managing the reopening and bringing the virus to our shores and managing it.

Globalisation has been good to Cayman — and Cayman has been good for globalisation. For 60 years, our jurisdiction has acted as an interconnect for finance from around the world. Through banking, insurance, SPVs, joint ventures, trusts, and funds, our tax neutrality and highly respected and adaptive legal frameworks facilitate the pooling of



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assets and liabilities from many different jurisdictions. This has lowered the cost of capital for investments and thereby increased global economic growth.

We now appear to be entering a period of deglobalisation, with nations seeking to re-shore economic activity through the application of tariffs and incentives. Fortunately, the signs are that Cayman is resilient to this threat. In spite of numerous measures taken in the past few years, including the Tax Cuts and Jobs Act which expressly sought to re-shore capital in the U.S., the introduction of tax-neutral structures by Singapore and Hong Kong intended to encourage capital to move to those shores, and more recently sanctions on Russian oligarchs, which caused a reshoring of capital to Russia, Cayman's financial services industry has continued to grow.

However, if countries were to impose more aggressive restrictions on the pooling of capital from certain jurisdictions, it could lessen the value add that we are able to provide. To address this threat, we continue to facilitate the development and adaptation of our financial industry, enabling us to offer a wider array of financial services, and we continue to diversify our economy, encouraging next-adjacent sectors such as fintech, as well as new sectors such as healthcare and tech. We believe that such diversification will make us more resilient to the threat of deglobalisation.

Global regulation, especially in the form of increasingly onerous requirements from global standards-setting bodies such as the FATF, present a somewhat more immediate risk to Cayman. As you know, the jurisdiction is currently on the FATF "grey list" and the EU "black list". Being on such lists leads to enhanced due diligence requirements by the authorities in some jurisdictions and has adversely affected our ability to offer some kinds of SPVs to EU-domiciled entities. It also adversely affects our reputation.

In spite of the discouraging decision by the FATF at its most recent meeting in Paris, we are confident that we will soon meet all the FATF's criteria and leave the grey list. And we have been reassured that once that happens we will not be required to meet additional



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criteria in order to be removed from the EU's blacklist. But we remain ever vigilant and our talented team at the Ministry of Financial Services is working diligently to ensure that we meet ever higher standards in a way that is not excessively burdensome to the industry.

Over the last months, we've seen even more disruptions. As mentioned, the collapse of Silicon Valley Bank, but also the widespread introduction of large language model Artificial Intelligence that promises to evolve white collar work in ways that we do not yet understand.

We live in a world of rapidly evolving risks. And, our role here is to be a safe haven of democracy, freedom, liberalism, strong institutions, security and physical safety. We must make ourselves climate resilient and set an example to the world of what that looks like.

Locally, we are approaching the midterm of our government in April. Two years completed and two years to go. We are embarking now upon a midterm evaluation. As we reach the midterm of this government and we prepare for the April policy strategy statement and budget season, I will be challenging all Ministries and departments to take their performance to the next level.

This midterm evaluation is looking at progress, results, functions and the human capital, including leadership in the elected Government and Civil Service. You can count on PACT to ensure the Government is in a mode of continuous improvement - delivering value for money by regularly evaluating performance in both quality and pace – as well ethics and conduct. You can count on PACT to act in ways to responsibly grow the economy and sustainably improve the quality of life for the citizens of our islands.

This government acknowledges that serving in government is a privilege, it is not a right. It is not about personalities or power, it is about service and it is about people. We must not become complacent or too comfortable in our positions, because, when we become complacent and comfortable, we are not the best possible servants of the people. During



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this midterm evaluation, I am going to take a hard look at both the successes we have had and the challenges we have faced and it may mean that bold, decisive action is necessary to make sure that we accelerate the progress over the next two years.

As a part of this midterm evaluation, I urge you to tell me what is working and what needs improvement. Let us have these important conversations, even if they must be tough conversations. We need to make some tough decisions for the good of our country.

My friends, our economy is strong and getting stronger. We are strengthening our financial regulatory systems to protect our position. We are reducing our unemployment rate to record lows. We are investing in our people and social programmes to help them improve their health, educational outcomes and employability. We are producing a record government surplus. And, yes, we are experiencing some of the problems affiliated with economic growth – like rapid population growth and traffic.

Now is the time to consolidate our position and sustainably manage our growth. Now is the time to build a society that treats people fairly.

Now is the time to improve transportation in our country.

Now is the time to adapt to a changing climate.

Now is the time to ensure our Caymanian identity, heritage and culture is protected.

Now is the time to make our government systems more efficient.

And now is the time to remember to appreciate all the good things we have going for us in the Cayman Islands.

We have much to be thankful for. Carpe diem. Let us seize the day.

Thank you.



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